Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Nava | Analyst: Nicole Kwon | Bill Number: AB 164

Related Bills: See Prior Analysis | Telephone: 845-7800 | Amended Date: Feb. 23 and March 8, 2005

Attorney: Patrick Kusiak | Sponsor: ______

SUBJECT: Disaster Loss Deduction/Excess Loss Carryover/Santa Barbara & Ventura County Severe Rainstorms, Related Flooding, Slides, & Other Events

X DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced January 19, 2005.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENTS CONCERNS stated in the previous analysis of bill as introduced/amended ____________________.

____ FURTHER AMENDMENTS NECESSARY.

____ DEPARTMENT POSITION CHANGED TO ____________________.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED January 19, 2005, STILL APPLIES.

OTHER – See comments below.

SUMMARY

This bill would allow taxpayers special tax treatment, called disaster loss treatment, for losses sustained as a result of the severe rainstorms and related events that occurred in Kern, Los Angeles, Orange, Riverside, San Bernardino, San Diego, Santa Barbara, and Ventura Counties.

This analysis will not address the bill's changes to the Property Tax Law as they do not impact the department or state income tax revenue.

SUMMARY OF AMENDMENTS

The March 8, 2005, amendments resolved the argument/policy concern identified in the department's analysis of the bill as introduced January 19, 2005, by adding Kern, Los Angeles, Orange, Riverside, San Bernardino, and San Diego to receive disaster loss treatment as a result of the severe rainstorms and related events. The amendments also broadened the scope of the disasters covered to include storms and debris flows. A revised revenue estimate is included below. The remainder of the department's analysis of the bill as introduced January 19, 2005, still applies.

The February 23, 2005, amendments made changes to the Government Code related to the Natural Disaster Assistance Act. These changes would not impact the department or the state's income tax revenue.

Board Position:			Department Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Gerald H. Goldberg	3/15/05
____ N	____ OUA	X PENDING		

POSITION

Pending

ECONOMIC IMPACT

Revenue Estimate

Based on the discussion below, the revenue loss from this bill is as follows:

Estimated Revenue Impact of AB 164 As Amended March 8, 2005 Assumed Immediate Enactment Date Fiscal Year Impact		
2005-06	**2006-07**	**2007-08**
a /	a /	a /

a/ Loss of less than $150,000

Revenue Discussion

The impact of this bill would be determined by disaster losses due to personal property damages reported as a deduction in future years. Business property losses do not impact revenues since current law provides carryover loss provisions. Once the total amounts of possible deductions are quantified the average marginal tax rate is used to determine the revenue impact.

Preliminary data complied by each county and submitted for state/federal assistance was obtained from The California Office of Emergency Services Department. Since counties are facing challenges in gathering private damage information, weighted averages for each county was calculated according to the preliminary data.

Ventura County was the only county able to provide a current and reasonable estimate of $75 million in private damages. Since current data for each county is not readily available, Ventura County's portion of private damages is adjusted by its weighted average of 37% to reflect total damages of all eight counties. Therefore, the estimate is based on $203 million ($75 million ÷ 37%) in property damages.

Based on the preliminary data for all counties, on average, business losses represent 30% or $60 million ($203 million x 30%) of total losses. This portion will not impact revenues.

The remaining 70% is attributable to personal property losses, resulting in approximately $142 million ($203 million x 70%) for personal income taxpayers.

Of the $142 million in total personal income tax losses, it is estimated that 90% of personal losses are insured. Therefore, uninsured losses are estimated to be $14.2 million (142million x 10%).

It is estimated that basis limitations will reduce losses for tax purposes by 1.5% of total personal income tax losses to $12.1 million ($14.2million - ($142 million x 1.5% = $2.1 million)= $12.1million). Qualifying losses must further be reduced to reflect adjusted gross income limitations. It is estimated that this limitation represents 1.5% of total personal income tax losses and reduces the applicable losses to $10 million ($12.1 million – ($142 million x 1.5%= $2.1 million) = $10 million).

Total losses of $10 million may be used in the year prior to the disaster, the year of the disaster, or carried forward to future years. It is estimated that 33% will be used during the year of the disaster and 5% will never be utilized. The other 62%, $6.2 million ($10 million x 62%=$6.2 million), will be carried forward and allowed for use in future years. Assuming an average marginal tax rate of 6%, this proposal's total revenue loss approximates $372,000 ($6.2 million x 6% = $372,000). If total losses of $372,000 are carried forward and utilized over a three-year period, the revenue impact is deemed as insignificant.

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